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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# Report of the Special Committee on Preferences on its twenty-first session

held at the Palais des Nations, Geneva,
from 16 to 20 May 1994

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**New York and Geneva, 1994**

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## INTRODUCTION

1. The twenty-first session of the Special Committee on Preferences was held from 16 to 20 May 1994. In the course of its session, the Special Committee held six plenary meetings (181st-186th). In addition, private and confidential bilateral consultations were also held on individual schemes. This report gives an account of the deliberations in plenary meetings.

Introductory statements

2. The **Chairman** said that the session was important for three reasons: it was the first session since the successful conclusion of the Uruguay Round; it would serve as a preparatory meeting for the 1995 policy review of the Generalized System of Preferences (GSP); and, it was the appropriate time to examine the scope and modalities of extending preferential treatment, as called for in the Cartagena Commitment. The notable development in the field of GSP was the conclusion of the Uruguay Round. While a comprehensive analysis was needed, it was nevertheless possible to see that the successful conclusion of the Uruguay Round had given new impetus to international trade, including the GSP and its rules of origin. Although the direct effect on the GSP would be an erosion of the preferential margin for certain items, owing to the reduction of tariffs on a most favoured nation (MFN) basis, new opportunities had appeared in favour of developing countries. These included possible extension of product coverage for products subject to various types of non-tariff measures (NTMs) and possible reform of origin rules, because post-Uruguay Round low levels of MFN duty rates no longer justified such stringent criteria, as the risks of possible trade diversion or use of origin rules to safeguard the interests of domestic producers would be substantially reduced. Other issues to be addressed were the duration of schemes, minimizing various quantitative limitations, criteria for "graduation", and technical assistance. As this session was the first step in the 1995 GSP policy review process, it would be especially meaningful if the Standing Committee could produce a substantive text that could form an agreed basis for the 1995 policy review.

3. The **Officer-in-charge of UNCTAD** said that the Uruguay Round had opened the way for new impetus to be given to international trade. It was thus fitting that attention should turn to the GSP. Upgrading it and streamlining its operation was vital as the GSP had served as one of the most important instruments of trade cooperation between developed and developing countries in the postwar period. Trade generated by the GSP had increased steadily; in 1992, a total of $77.4 billion of imports from beneficiaries received preferential treatment. This growth in trade had increased the capacity of developing countries to import, in particular from developed countries. Nevertheless, the GSP had still not reached its full potential, mostly because of the measures limiting its scope and restrictions surrounding its operation. At a time when most developing countries were introducing policies aimed at opening their economies to world markets, an improved GSP might be a potent force in achieving this objective. At this juncture there was a lot at stake: the GSP was currently at a turning point. At the twentieth session, the

Chairman had summed up the views expressed in the Special Committee as follows: "while agreeing to the importance of the GSP, a number of countries felt that the system should be revitalized and that fresh and innovative approaches should be taken in its design, review and improvement". Accordingly, at the same session there was consensus on a decision to conduct in 1995 a policy review of the GSP, in order to consider these issues.

4. A first area of concern was the extension of some major schemes. The extension of at least one scheme was already under discussion and was expected to be decided on by the end of 1994. However, uncertainties still persisted in relation to another scheme. Some beneficiary countries and the media had voiced an additional concern: possible new conditionalities being set on GSP benefits.

5. The reduction of MFN tariffs agreed to in the Uruguay Round would provide new opportunities for developing countries. However, the direct effect on GSP would be an erosion of the preferential margin for certain items. The Cartagena Commitment, in paragraph 140, specifically called for GSP preference-giving countries to consider, upon the successful conclusion of the Uruguay Round, increasing, where possible, preferential margins and duty-free treatment under their schemes. The conclusion of the Uruguay Round offered room for expansion of GSP benefits in at least two areas: tariffication of all non-tariff measures in agricultural products; and the phase-out of the multi-fibre arrangement (MFA) governing the textile and clothing trade.

6. Another issue linked to the expansion of the GSP scheme was that of "graduation". This concept had been specifically addressed at the nineteenth and twentieth sessions of the Special Committee and had also been considered by the Ad Hoc Expert Group Meeting on the GSP, convened by the Secretary-General of UNCTAD in February 1994 as part of the preparatory work for the 1995 policy review. The debate over the scope of graduation had indicated a clear preference for making it country/product-wise rather than country-wise. A clear and balanced mechanism needed to be devised to ensure that the objectives of the GSP were respected. Ideally any country/product exclusions should be phased in over a reasonable warning period and should be reversible. In the light of the GSP objectives, the Special Committee might wish to invite the secretariat to study and make recommendations as to how country-product graduation measures might be taken.

7. The Uruguay Round had broken new ground in bringing under GATT discipline the rules of origin. Although the text concerned only non-preferential rules of origin, the Common Declaration on preferential rules of origin might offer the Special Committee new opportunities and lines of action in an area where progress had so far been limited.

8. Finally, he noted that technical cooperation activities had been increasingly recognized as effective tools for disseminating information on the advantages of the GSP. UNCTAD's activities in this regard had been maintained at a high level in 1993 thanks to the generous trust fund contributions made directly by member States and through the United Nations Development Programme (UNDP). In-kind contributions had also been numerous.

Such contributions were very much appreciated and further pledges for 1994 and the future would be valued highly. He welcomed in particular the pledges made by the Governments of Japan, Switzerland and Italy. However, owing to the changes expected subsequent to the renewal of some major schemes and the introduction of new trade rules, requests for technical cooperation activities were expected to increase. He, therefore, invited the Special Committee to examine how best to secure the necessary resources for technical cooperation, in order to ensure its effectiveness in the future on a predictable basis.

## Chapter I

### REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES, INCLUDING PREPARATIONS FOR THE 1995 POLICY REVIEW ON THE GSP

(Agenda item 3)

### CONSULTATIONS ON HARMONIZATION AND IMPROVEMENT OF THE RULES OF ORIGIN

(Agenda item 4)

### TECHNICAL ASSISTANCE IN CONNECTION WITH THE GENERALIZED SYSTEM OF PREFERENCES

(Agenda item 5)

9. For its consideration of these items, the Special Committee had before it the following documentation:

"Seventeenth general report on the implementation of the generalized system of preferences: Recent changes and policy issues" - Report by the UNCTAD secretariat (TD/B/SCP/6) (item 3);

"Report of the Ad Hoc Expert Group on the Generalized System of Preferences" (TD/B/SCP/9) (item 3);

"Review of past discussions, recent developments and possible ways forward" - Report by the UNCTAD secretariat (TD/B/SCP/8) (item 4);

"Technical cooperation activities on the generalized system of preferences and other trade laws, 1993" - Report by the UNCTAD secretariat (TD/B/SCP/7) (item 5).

10. The **Director of the International Trade Division** referred to the "Seventeenth general report on the implementation of the generalized system of preferences" (TD/B/SCP/6) which highlighted the main changes and improvements made to the GSP and also updated information on the trade effects of the system. Preferential imports had continued to show dynamic growth, reflecting the trade expansion policies of many preference-receiving countries which, inter alia, had adapted their production and export supply capabilities to product lines covered by the GSP schemes. He pointed out that the GSP schemes as a whole covered roughly 50 per cent of all dutiable exports from beneficiaries, of which in turn about 50 per cent received GSP treatment. This meant that only a quarter of all dutiable exports were imported under the GSP scheme. Moreover, it implied that vast untapped possibilities existed for preferential treatment even under the existing trade structure. Following the agreement on preparations for the 1995 policy review on the GSP reached at the twentieth session of the Special Committee, the twenty-first session would devote attention to preparations for the 1995 policy review on the GSP. Hence the secretariat report had also highlighted the emerging economic and policy environment for the GSP and provided several options for improving its

effectiveness, taking into account a study entitled "Possible improvements to the Generalized System of Preferences" (UNCTAD/ITD/8), prepared by a consultant. The conclusion of the Uruguay Round of Multilateral Trade Negotiations was one notable development with implications for the effectiveness of the GSP and the scope for further improvements in accordance with the Cartagena Commitment. Therefore, some preliminary indicative figures were given regarding possible erosion of the preferential margin, based on information collected by the UNCTAD secretariat.

11. With regard to possible improvements in the GSP system, there were three priority areas. First, a substantial expansion of product coverage would be one of the most efficient ways to maintain benefits following the conclusion of the Uruguay Round, taking into account the export interests of beneficiary countries and, in particular, those of the least developed countries. Secondly, there was a need to minimize various quantitative limitations and restrictions on preferential imports as only half of covered exports actually received preferential treatment, mainly because of various quantitative limitations. In the GSP context, general safeguard measures analogous to Article XIX of the GATT were rarely used. Thirdly, the GSP rules of origin should be comprehensively reviewed. Post-Uruguay Round low levels of MFN duty rates no longer justified such stringent criteria and, as the Chairman had mentioned, there was less risk of possible trade diversion or use of rules of origin to safeguard the interests of domestic producers. It was expected that a detailed technical analysis would be carried out by the Customs Cooperation Council (CCC), so that non-preferential rules of origin could be harmonized. As this work would have a considerable impact on the GSP rules of origin, the UNCTAD secretariat would closely monitor such developments. Existing unilateral graduation measures in some schemes could also be discussed in this context, with a view to establishing multilaterally agreed objective criteria for these measures. An in-depth study on this issue could be undertaken. There were two new issues in the GSP context, i.e. "green" GSP and possible extension of the GSP concept to trade in services.

12. The Ad Hoc Expert Group on the Generalized System of Preferences convened by the Secretary-General to assist the secretariat in preparations for the 1995 policy review on the GSP had made recommendations and conclusions (TD/B/SCP/9). While the experts had considered the original objectives of the GSP to remain fully valid, they believed its principles needed to be realistically reinterpreted on a multilateral basis in order to revitalize the GSP. They recommended a number of areas for improvement such as extension of product coverage, increased preferential margins as well as harmonization and a fairer burden-sharing among the different schemes, which might also lead to more comprehensive product coverage. The experts also recommended a multilaterally agreed graduation mechanism enabling preference-giving countries to change the country coverage in the event of disturbances in their domestic markets. It was felt that such graduation measures should be on a product/country basis rather than solely a country basis. Furthermore, suspension should not entail a decrease of GSP benefits in terms of preferential trade and tariff revenue foregone.

13. The secretariat report, "Consultations on harmonization and improvement of the rules of origin: Review of past discussions, recent developments and possible ways forward" (TD/B/SCP/8), summarized past discussions and recent developments and set out a number of proposals for harmonization and

simplification of the GSP rules of origin. Despite the efforts by the Committee over the past 20 years or so, limited progress had been made on this and the problem of the two different sets of rules, i.e. the process criterion and the percentage criterion, remained. The planned harmonized non-preferential rules of origin to be worked out by the WTO/CCC should be adopted as a base for GSP trade. The Ad Hoc Expert Group also recommended that the Special Committee establish a working group to examine possible policy guidelines, including the new agreement in GATT on non-preferential rules of origin and the Common Declaration on preferential rules of origin.

14. As for "Technical cooperation activities on the GSP and other trade laws, 1993" (TD/B/SCP/7), despite the decline of funding, the delivery of such UNCTAD activities remained at a high level. Member States which had so generously provided financial and in-kind contributions deserved praise as this, together with UNDP funding, allowed these valuable activities to be maintained. As many GSP schemes would be revised partly or entirely to reflect the Uruguay Round agreements and, accordingly, new individual GSP handbooks must be published, continued financial and in-kind support from member States was essential to this effort. The Technical Cooperation Programme on the GSP and Other Trade Laws had made a significant contribution to the fuller utilization of the GSP by way of disseminating up-to-date information, providing detailed analysis of complicated GSP rules of origin and installing of the software package on the Trade Analysis and Information System (TRAINS) at the GSP focal points. The GSP programme was mainly targeted at low- and middle-income beneficiaries, including the least developed countries. All member States of UNCTAD were invited to consider making contributions to the Programme so that the level could be sustained.

15. The spokesman for the **Group of 77** (Chile) said that his Group looked with great interest on the new era which had dawned with the conclusion of negotiations on the Uruguay Round. It was now time to make true progress with a new generalized system of preferences in view of the significant erosion of preferential margins as a result of the Uruguay Round. Moreover, it was necessary to adjust the GSP to the new reality brought about by the Uruguay Round so as to maintain the system which provided support to development and trade for developing countries. If the developed countries would analyse the erosion resulting from the Uruguay Round this would be a step in the right direction; they should try to make adjustments that would enable developing countries to maintain or increase their preferential margins.

16. His group welcomed the integration of the agricultural and textile sectors in the new GATT. It would be desirable to obtain a substantive reduction of tariffs and non-tariff measures, together with an expansion of product coverage, particularly with regard to agriculture, fisheries, textiles and footwear. UNCTAD should study the impact of the new regional free trade agreements along with the Uruguay Round agreements in relation to the GSP. Effective ways had to be found to make the GSP more transparent, dynamic, consistent and effective, in order to utilize it to a maximum.

17. The effect of non-tariff measures on exports of developing countries was of great importance because such measures were concentrated in sectors where developing countries had comparative advantages. These discriminatory measures affected more than 50 per cent of exports; they had been increasing and protected the markets of developed countries in a non-equitable way. This

was a big problem for developing countries which had undertaken economic reforms, including import liberalization, but still faced problems with regard to external debt and the balance of payments. It was also important to reduce substantially various quantitative limitations on products of interest to developing countries so that they could gain access to developed country markets.

18. Administration of the schemes, graduation measures and the rules of origin bearing on the effectiveness of the system were issues that had to be discussed in a multilateral context. The GSP, being a unilateral and temporary system which could be withdrawn at any time, was uncertain and insecure, and affected in particular long-term investments. Various quantitative limitations in the form of quotas, ceilings or maximum country amounts, as well as graduation measures, made the GSP extremely complicated. Such complexity was contrary to the basic principles of the GSP and ran counter to the objective of promoting industrialization in developing countries. Issues relating to labour standards, environmental measures and intellectual property rights rendered the scheme even more complicated. Some of these issues had not been discussed in an appropriate forum; others, although they had been discussed, should be analysed further with a view to reaching consensus. It was urgent to define a system of early warning which would enable beneficiaries to identify affected sectors. It was important that both the preference-giving countries and the beneficiary countries agree on a mechanism to handle graduation measures or suspension of preferential treatment, including a reasonable grace period. There was an urgent need to harmonize rules of origin. Although the Uruguay Round agreements on such rules had established common principles, this did not mean that the Round had created harmonized rules of origin for GSP purposes. A formula to harmonize GSP rules of origin had to be sought. The Group of 77 was seriously concerned over assuring that GSP benefits would be enjoyed by the least developed countries, in view of their economic situation. It would be necessary to find adequate measures to compensate for possible erosion of the GSP affecting them.

19. The representative of **Switzerland** said that the Uruguay Round negotiations had formed a watershed in the history of world trade. They had created only potentialities for exports by developing countries. Thus the decision to undertake a review of the GSP schemes, as provided for by the Cartagena Commitment, had been timely. The Swiss Government had requested a study on the impact of the Uruguay Round on the developing countries prior to ratification of the Marrakesh agreements. Whether the GSP remained an adequate instrument to attain this objective was a moot question. The principles inherent in the GSP, such as non-discrimination and non-reciprocity, were no longer respected. Undeniably, there were differences in export performances among developing countries. The UNCTAD proposal to study the possibility to elaborate objective criteria for graduation had her country's complete support.

20. UNCTAD should also study ways to render the GSP more multilateral in practice. If one considered the tariff reduction agreed on in GATT and the reductions agreed on in various free trade areas, the GSP benefits were merely equivalent to re-establishing the developing countries on the same footing with countries members of the free trade areas. However, certain developing countries had unilaterally liberalized their trade policy and reduced rates of

duty in recent years but these concessions remained unbound in the GATT. The Government of Switzerland would therefore suggest that the UNCTAD secretariat study the possibility of elaborating a plan to consolidate and bind these tariffs in GATT. The preference-giving countries would undertake within the GATT framework to maintain the GSP with a clear and defined graduation programme. In conclusion, she said that the Government of Switzerland supported the extension of the GSP concept to other areas such as services and investments and requested that UNCTAD study these possibilities. The new GSP could be a totally different system offering new possibilities for developing countries to benefit from the opportunities created by the outcome of the Uruguay Round.

21. The representative of **Austria** said that while the future of his country's GSP scheme was rather uncertain, owing to the country's possible membership in the European Union, the latest developments had been correctly reflected in the seventeenth general report on the implementation of the GSP (TD/B/SCP/6). With regard to rules of origin, the UNCTAD secretariat's report (TD/B/SCP/8) had put forward interesting views and proposals along with some rather controversial ones. It should be possible to agree on future guidelines in the context of the 1995 policy review of the GSP. While new GATT rules of origin to be developed would be solely of a non-preferential nature, the undeniable underlying interrelationship was like two sides of the same coin and this would have to be reflected carefully. The report of the Ad Hoc Expert Group on the Generalized System of Preferences (TD/B/SCP/9) deserved special attention for the way it highlighted aspects of possible future directions for the GSP. Although many of these aspects would have to be dealt with in the 1995 policy review, a frank discussion of some of these points at an informal meeting during the current session might provide a useful input for another meeting of the Ad Hoc Expert Group. Austria could not support the suggestion made by the Expert Group that the Special Committee should consider further the issue of a GSP for services. Already at the time when this issue was raised during UNCTAD VIII in Cartagena, it was extremely controversial. Austria's position in this regard had not changed since then. The Special Committee's work should be based on UNCTAD resolution 21 (II) and on the results of the earlier sessions of the Special Committee, whose underlying assumptions were exclusive concentration on preferential trade in goods. Any broadening of the scope to cover trade in services would require a decision at a higher level than that of the Special Committee. On the subject of the technical assistance programme, he said that his country traditionally had given considerable attention to this activity out of conviction of its importance. Paragraph 17 of the report of the Ad Hoc Expert Group had underlined the programme's contribution. The secretariat's report on technical cooperation activities (TD/B/SCP/7) also showed his country's active cooperation on the GSP project throughout the reporting period, although it had remained at a low level owing to personnel constraints. Austria was seeking to revitalize its efforts in this field and was pursuing the idea of financing a GSP seminar for some African least developed countries in the near future.

22. The representative of **India** said that, in over two decades of operation, the GSP had been a useful instrument for trade creation in all countries. Developing countries had benefited from GSP preferential tariffs, as shown by the fact that their imports had increased at an average annual rate of about 8 per cent since 1976, while their GSP exports had increased at a rate

of above 13 per cent. In 1992, some US$ 80 billion of exports from developing countries had benefited from the low or zero tariffs in OECD preference-giving countries. As the usefulness of the GSP schemes was undeniable, his country was encouraged to make suggestions regarding certain improvements which would further strengthen the commitment to global economic cooperation. The GSP schemes should be extended for another decade by all the preference-giving countries. The reduction of tariffs consequent upon the implementation of the results of the Uruguay Round would erode the GSP preferential margins, ranging from about 9 per cent in the United States about 15 per cent in Japan, and about 23 per cent in the European Union. He, therefore, urged that the preference-giving countries adhere to the Cartagena Commitment and make the necessary adjustments in their schemes so as to maintain their effectiveness. The foremost necessity was to impart continuity, stability and predictability in the GSP schemes. Secondly, it was necessary to make adjustments in the product coverage and depth of tariff cuts so as to maintain and enhance the value of the schemes. Thirdly, it was necessary to reaffirm the generalized, non-discriminatory and non-reciprocal principles on which the GSP had been founded. The schemes now had a tendency to become less generalized and discriminatory; reciprocity was being demanded in certain cases. The linking of the GSP to such issues as workers' rights, protection of intellectual property rights and the environment was overloading the GSP; the utmost caution should be taken over such linkages. Tariff quotas, ceilings, maximum country amounts and competitive need limitations created uncertainty among entrepreneurs, since they did not know whether goods already produced or even already shipped were going to benefit from GSP. Empirical evidence also suggested that competitive need exclusions benefited largely the non-GSP suppliers from developed countries and some major GSP beneficiaries. The concept of graduation was a source of complexity in GSP schemes. Product-specific graduation could lead to disruption of trade flows, altering the conditions of competition for the graduated country. If graduation measures were in fact needed, it would be appropriate to graduate countries as a whole once they had reached an adequate level of development. An important improvement in certain GSP schemes would be the inclusion of products such as textiles and clothing, footwear and leather products and semi-processed and processed agricultural products.

23. Simplification and harmonization of rules of origin would impart greater transparency to these rules. The introduction of donor country content as well as global cumulation would also help improve the situation. An extension of the GSP to services could be usefully explored in the time leading up to the 1995 policy review. A strengthened, improved and expanded GSP preferential system would be a measure of support for developing countries' trade liberalization policies which, apart from benefiting the developing countries themselves, would also stimulate growth in global trade.

24. The representative of **Norway** said that since the twentieth session several changes had been made to the list of beneficiaries under the Norwegian GSP scheme. First, pursuant to the entry into force of two free trade agreements concluded between the EFTA countries, on the one hand, and Romania and Bulgaria respectively, on the other, the latter two countries had been deleted from the list as from 1 October 1993. Secondly, four new beneficiaries had been added to the list: Albania, from 9 July 1993; the former Yugoslav Republic of Macedonia, from 29 October 1993; Mongolia, from 21 January 1994; and the Republic of South Africa, from 6 May 1994. In

particular, Norway welcomed the unique political development in South Africa, which had brought about changes in his country's economic policies vis-à-vis that country. The granting of GSP treatment to South Africa would be a contribution to integrating it into the world economy and promoting economic and social development within the country. On the subject of product coverage, from 1 January 1994 all items under HS code 61.15 had been granted duty-free entry. The latest 1992 statistics showed that 80 per cent of Norwegian imports from GSP beneficiaries were eligible for duty-free entry, either on a GSP or an MFN basis. The utilization rate of the Norwegian GSP scheme in 1992 was 69 per cent, the highest figure recorded during the last 15 years.

25. With regard to technical assistance, Norway considered that UNCTAD had made an essential contribution to the utilization of the GSP through its broad Technical Cooperation Programme in this field and Norway had been a faithful contributor to this effort for a number of years. Norwegian support to the Programme, which annually amounted to around US$ 40,000, was channelled into the central trust fund and thereby allowed for maximum flexibility in the use of his country's contributions. There was clearly a need for continued technical assistance in the field of GSP, especially for the least developed countries owing to the expected changes in the GSP as a result of the Uruguay Round. In this connection, the Norwegian Government wished to urge preference-giving donors, in particular those which had contributed less than their reasonable share, to contribute to securing the financial basis for the Technical Cooperation Programme.

26. The representative of **Argentina** said that the conclusion of the Uruguay Round had brought new challenges and opportunities so that the updating and renewal of the GSP was more important than ever for the developing countries, especially for those which had undertaken structural reforms and consolidation of their trade liberalization measures. As the expert group had affirmed (TD/B/SCP/9), the principles of the GSP, that is their generalized, non-discriminatory and non-reciprocal nature, remained fully valid. However, the possibility of realistically interpreting them should not be excluded, provided this could be done on a multilateral basis and in the spirit which had governed the system since its inception. The expert group had also reached a consensus on the importance of keeping changes in the schemes to a minimum for at least five years, although an even longer period would be better. Some sectors, such as foodstuffs, wool, footwear and leather goods still had high tariffs. Progress could be made by expanding GSP coverage to these products. For foodstuffs, product coverage should be based on duty-free access excluding any compensatory amounts (as mentioned in TD/B/SCP/6, para. 71). The Uruguay Round had incorporated GATT disciplines in sectors not previously regulated. In the case of agricultural products, tariff peaks would exceed 80 per cent, according to findings presented by the UNCTAD secretariat (TD/B/SCP/6, para. 73). It would be useful if the secretariat could elaborate on this analysis and also cover the textile sector, for an evaluation of the real impact. Technical cooperation to developing countries was important to help them utilize the schemes better. As for graduation, the criteria should be multilaterally agreed upon; country/product graduation and country graduation should be differentiated. In the first case, as proposed by the Ad Hoc Expert Group, objective economic criteria should be applied, such as market share, industrial capacity, level of development and diversification, bearing in mind the concept of "neutral effect" of the

withdrawal of a preference. The product in question should have acquired sufficient "maturity" to allow it to compete with suppliers not enjoying preferences. Prior consultation should also be provided for. In the case of country graduation, general criteria based on GNP were not comprehensive enough. Consideration should be taken of high-income countries dependent on only one product and having a low level of industrialization. His delegation held the view that the regional integration phenomenon, such as MERCOSUR, was positive and did not have any restrictive effects on trade such as those described in TD/B/SCP/6 (para. 50).

27. He then referred to the proposal to grant additional benefits to environmentally-friendly products: a kind of "green" GSP. This concept was interesting but care would need to be taken to ensure that the benefits were additional, covering for instance, agricultural products not currently within the schemes. Moreover, any step taken should be the result of multilateral negotiations based on an analytical study by UNCTAD. TD/B/SCP/6 had rightly noted that developing countries did not desire additional benefits for the establishment of higher environmental standards in so far as it would influence the environmental policy of a country (para. 99). The idea of a GSP on services required further study. Finally, with regard to the rules of origin, revitalization of the GSP without harmonization and simplification of these rules was unimaginable.

28. The representative of **Romania** stated that the GSP, in operation for more than 20 years, had been useful as an instrument of commercial policy in promoting developing countries' exports. Although improvements had been made to the schemes over the decades, more could be done in order to achieve the objectives set out in UNCTAD resolution 21 (II). This was especially true since the conclusion of the Uruguay Round. Action in several directions was needed to improve the GSP. First, since only 50 per cent of dutiable products were covered by the GSP schemes, a net expansion of product coverage would improve the efficiency of the GSP. Secondly, all preference-giving countries should provide duty-free access for GSP-covered products or at least increase the preferential margin. The tariffication of non-tariff measures applied to the agricultural sector and dismantling of the Multi-Fibre Arrangement provided opportunities to grant duty-free access or an increased preferential margin in these areas. Thirdly, efforts should be made to reduce or eliminate limitations or restrictions on preferential imports. Fourthly, multilaterally agreed criteria for graduation should be explored. Fifthly, it would be necessary to liberalize, simplify and harmonize GSP rules of origin. All preference-giving countries should also adopt donor-country content and global cumulation. Sixthly, it was important to intensify technical assistance on GSP despite the declining funds available. It was hoped that bilateral donors and UNDP would increase their contributions. Finally, innovative approaches should be adopted regarding the concept of the GSP. In this context, he supported the proposal to grant additional benefits to environmentally-friendly products. Romania was currently in transition to a market economy, and the GSP facilitated this transition process by improving the balance of payments. Following agreements with the European Union and EFTA countries, the trade preferences accorded under GSP had been integrated into these agreements. Finally, he welcomed the decision of the United States of America to re-establish Romania as a beneficiary after its withdrawal in 1987 under the workers' rights provision.

29. The representative of **China** referred to the positive role of the GSP for export expansion and industrialization of developing countries. The GSP was of great significance for the sustained growth of the world economy, given the major changes in the world's economic and political situation. In the past year, the GSP schemes had improved in a number of areas. Nevertheless, GSP benefits generally continued to be eroded. The reduction of the scale of tariff preferences came partly as a result of the Uruguay Round, the establishment of free trade zones and other new preferential trade arrangements and partly owing to restrictive measures adopted by some preference-giving countries, such as quantitative restrictions and graduation. The GSP was thus in need of a comprehensive review. In such a review, it was hoped that donor countries would proceed from a premise of helping developing countries and making substantial improvements. To this end, such improvements should include establishing a stable, long-term duration for GSP, in order to avoid the difficulties and inconveniences caused by short-term extension. It was also necessary to simplify and liberalize the rules of origin, reduce the burden on the benefiting countries in implementing the rules of origin, expand product coverage, eliminate non-tariff measures, reduce the losses to the preference-receiving countries caused by the Uruguay Round, and avert the reduction and erosion of the original GSP programme owing to regional integration and the formation of trade groups.

30. His country had obtained satisfactory results through its foreign trade and had made substantial headway in the development of import trade. In the first quarter of 1994, trade with the United States was basically balanced. Imports from the European Union had exceeded exports to the same. China's import trade was likely to rise faster owing to the deepening of reforms, economic growth and increased demand for daily necessities. The trend of erosion of the GSP was a cause for concern, however. The current session, serving as a preparatory meeting for the 1995 policy review, should undertake an overall review and appraisal of the operations of the GSP in recent years, so that preference-giving countries could remove the various constraints weakening the GSP and contribute their due share to its revitalization. Concerning technical assistance, his country appreciated its usefulness in acquainting participants with and helping them master the latest developments in the GSP and other trade laws. With the conclusion of the Uruguay Round, which required countries to revise their trade laws in accordance with the agreement reached, his country would like to see technical assistance activities continued and strengthened. The parties concerned might arrange for the financing of these activities. The UNCTAD workshops on the GSP and other trade laws held last year were highly appreciated. Furthermore, the secretariat's in-depth analyses and study had provided a sound basis for exploring the improvement and expansion of the GSP in an ever-changing international economic and political environment.

31. The representative of **Canada** said that after two decades of implementation of the GSP his country had reviewed the basic objectives and principles underlying the GSP implementation. The objectives were found to be still valid and relevant; it provided an important policy instrument for encouraging sustained export growth. The Government of Canada, therefore, had introduced legislation in January 1994, which had been approved by the Canadian Parliament in March by which the GSP scheme had been extended for a further 10-year period, until 30 June 2004. The Republic of South Africa became a beneficiary effective 10 May 1994. Merely extending the GSP in its

current form would not be adequate to ensure the objectives of the GSP for developing countries and, most importantly, for the least developed, since completion of the Uruguay Round, and so a full review of Canada's scheme was under way, with a view to reducing GSP rates and expanding product coverage wherever possible. This review had been initiated in April 1994 and was expected to be completed by the end of 1994. Canada would also examine the desirability of maintaining the GSP for those countries which had reached a high level of economic development. The review moreover included public consultations with domestic interests in Canada and, particularly, beneficiary countries.

32. Regarding rules of origin for GSP purposes, Canada supported the themes of harmonization, simplification and liberalization wherever possible as well as the principles of transparency and predictability. These latter two principles were the key to the successful operation of any preferential trading system. Concerning one specific point raised in TD/B/SCP/8, paragraph 40, related to the direct consignment rule, he stated that in 1988 Canada had removed the requirement to identify the Canadian port of entry on the through bill of lading for GSP imports. With regard to technical assistance, the Canadian Government continued to support actively the dissemination of GSP information through the attendance of experts at seminars. In 1993, Canada had sent experts to assist in seminars in Brazil and China.

33. The representative of the **Russian Federation** said that the basic principles with regard to the GSP should be upheld as the GSP was an important and efficient tool contributing to the development of trade and economic growth of developing countries. Cooperation within the UNCTAD Special Committee on Preferences was seen as a sufficiently flexible mechanism for ensuring the economic interests of his country in the transition period. One hundred and forty-seven countries were beneficiaries of the scheme. According to data for a nine-month period in 1993, the volume of preferential imports had totalled $5.5 billion or 31 per cent of the volume of imports. Twenty-nine beneficiaries of the scheme had a volume of imports over $10 million each. Among them were: Afghanistan, Algeria, China, Cuba, India, Republic of Korea and Turkey.

34. By decree 196 of 10 March 1994, the Russian Government had set new rates of import duty. With the exception of luxury goods and alcoholic beverages, rarely did rates exceed 25 per cent. Specific and combined duties on separate items, such as alcoholic beverages, tobacco and second-hand cars, had been introduced into the import tariffs. Minimal rates from 0 to 5 per cent were applied to commodities, socially important goods (medical equipment, pharmaceutical products, certain foodstuffs and commodities which could not be reproduced in sufficient quantities), spare parts, tools for machines and equipment, some types of materials and articles not produced in sufficient quantities but required for the development of various economic sectors, some types of manufacturing equipment necessary for modernization or to ensure safety. Maximum rates (from 50 to 100 per cent) applied to luxury goods and alcoholic beverages. For consumer goods, rates usually did not exceed 25 per cent; rates ranging from 10 to 25 per cent were envisaged for the majority of finished and semi-fabricated articles. New tariffs were expected to maintain the former scheme. For goods originating from the developing countries, excluding the least developed ones, 50 per cent of basic

rates of import duty were applied (MFN rates). Goods imported from the least developed countries entered duty-free. Presently a listing of beneficiaries of the temporary scheme was in force, by decree 614 of 21 August 1992. The work of improving the scheme of preferences continued. It was envisaged to keep the listing of beneficiaries as presently constituted, although other countries might eventually be introduced. Likewise, the product coverage of the scheme was being evaluated. Eventually it would be a "negative list" of goods not covered by the scheme. The UNCTAD secretariat would be kept informed.

35. In closing he expressed appreciation to those countries and groups which had granted preferential trade conditions to his country, namely, Austria, Canada, the United States of America and the European Union. This considerably facilitated the conditions of access to their markets and was perceived as bringing additional external support to the reforms under way in Russia.

36. The representative of **Pakistan** said that the GSP schemes had benefited developing countries in their efforts to promote exports. Although the GSP was an autonomous measure which left little room for preference-receiving countries to be demanders in its administration, such an autonomous nature should not allow unilateral actions on the part of preference-giving countries because unilateralism would introduce an element of distortion in trade, disturbing the balance of rights and obligations of the developing countries. This could be illustrated by the example of developing countries bringing down their tariffs autonomously while distortion would not allow them to implement these on a non-MFN basis. In order to make the GSP more beneficial for the developing countries, the foremost priority was to administer it in a non-discriminatory manner, in accordance with the basic principle of the GSP. Failing to do so would impinge on the rights and obligations of developing countries vis-à-vis the importing country as well as between third countries. Regarding the factors of non-economic conditionalities in the GSP, the inclusion of the so-called "social clause" and the "green clause" was seen as a protectionist measure which should be avoided. Some preference-giving countries were seeking to introduce the concept of cascading preferential tariffs. This would have unfair consequences. Pakistan wished to renew its request for the extension of coverage to include textiles, leather products and footwear, as well as agricultural products. On the subject of graduation, although his Government opposed the idea, it would opt for graduation by country rather than by product but it should be based on clear and multilaterally agreed criteria.

37. While the Uruguay Round would provide developing countries with increased opportunities, some preferences would be eroded. It would be only reasonable and prudent to bring down the preferential tariff margin by at least one third as agreed on in the Uruguay Round and pursuant to the Montreal Mid-term Review decision. Regarding rules of origin, as the harmonization of non-preferential rules of origin would be discussed in the Customs Cooperation Council, as a result of the Uruguay Round, the Special Committee might decide to participate in this harmonization exercise and include GSP rules of origin as well.

38. The representative of **Japan** observed that the current twenty-first session was very important because it was the first since the conclusion of the Uruguay Round negotiations. Moreover, it was also the preparatory meeting

for the 1995 GSP policy review. With regard to the recent developments in its GSP scheme, Japan had continued to make spontaneous efforts to improve its GSP scheme since the last review in 1990. In 1991, his Government had decided to extend its GSP for another 10 years, until March 2001. As to the ceilings, Japan had been increasing their level with an annual base; the number of ceiling quotas had been decreased to 125. In fiscal year 1994, the ceiling for one product group was abolished while ceiling levels for 45 product groups were raised. With regard to the rules of origin, Japan had relaxed the origin requirements for the clothing sector, which was classified under HS chapter 62 since November 1993. The number of beneficiary countries had also increased since the last review and GSP was granted to 134 countries and 25 areas. The number of least developed countries eligible for special treatment had increased from 38 to 41 in fiscal year 1994. The GSP was seen as an effective instrument for facilitating the promotion of exports, industrialization and the economic development of beneficiaries, hence his Government would make efforts to improve the scheme, bearing in mind the original objectives of GSP. However, the GSP had been created and implemented as an autonomous measure, taking into account the tariff system, conditions of domestic industries in individual preference-giving countries and the needs of beneficiaries. While recognizing an erosion of GSP preferences as a result of the agreed tariff reduction in the Uruguay Round, the trading opportunities of the developing countries would be greatly expanded as a result of the reduction. With respect to graduation measures, it was natural that countries/regions or specific products of countries/regions which had become competitive enough with developed countries graduate from the GSP scheme, in view of its objectives.

39. As the UNCTAD Technical Cooperation Programme on the GSP and Other Trade Laws was deemed useful in helping beneficiaries to strengthen their technical and administration capacity for fuller utilization of GSP schemes, the Government of Japan had been supporting the Programme by sending an associate expert to the UNCTAD/UNDP Regional Project for Asia and the Pacific as well as by financing a number of seminars. During the past 12 months, Japan had financed four national seminars in Thailand, the Czech Republic, Bulgaria and Brazil. For the fiscal year 1994, Japan, subject to the approval of the Diet, intended to contribute US$ 250,000 to finance GSP seminars under the Programme. In addition, it annually provided pamphlets in English explaining Japan's GSP scheme.

40. The representative of **Senegal** asked the secretariat to clarify why during the past two years only a small number of technical cooperation activities had been carried out in the African region. The **representative of UNCTAD** answered that this situation was mainly due to lack of funds.

41. The representative of **Brazil** said that the 1995 policy review should provide the opportunity for a multilateral discussion with a view to responding to the new challenges facing the GSP since the Uruguay Round's conclusion. The revision could set the stage for long-term change that would give renewed importance to the GSP. However, if a genuine multilateral discussion did not take place but, on the contrary, preference-giving countries, shielded by the unilaterality of the schemes, multiplied conditionalities and discrimination, the resulting loss of interest in the GSP might do irreparable damage to this instrument. He recalled the statement made by the representative of Chile on behalf of the Group of 77 which showed

that developing countries were open to discussion on even sensitive issues related to the system. In this connection, his Government appreciated the ideas presented by the delegation of Switzerland to initiate a multilateral discussion on the future of the GSP. The objectives of the GSP could not be read narrowly. As for example, the objective of favouring the industrialization of developing countries did not mean that GSP should cover only industrial products. With the tariffication processes of the Uruguay Round, an expansion of product coverage would renew the importance of the system. Eventual departures from the established principles of the system could only be considered when a guarantee of application of multilaterally defined criteria existed. The issue of product graduation would be examined in the context of a wider review of the system. Little clarity had been provided concerning the renewal of two major schemes or their format. It should have been possible for those two important schemes to incorporate the results of the 1995 policy review. As in the past, transparency, stability and predictability were areas where improvements were not conditional upon fundamental changes in the schemes. The proposal of the Ad Hoc Expert Group regarding creation of a working group of officials of preference-giving and preference-receiving countries to work directly on the issue merited support, provided that a clear mandate was established. The greatest change in the system in recent years had been the extension of GSP benefits to Central and Eastern European countries. A study should have been made of the impact on GSP of such inclusion. His Government appreciated the UNCTAD secretariat's assistance with a GSP seminar in Brazil and was grateful to the Government of Japan for financing it.

42. The representative of **Thailand** said that her country recognized the GSP as a significant instrument for expanding Thai exports to preference-giving countries. As a GSP beneficiary since the inception of the system in 1971, her country's GSP exports had increased from US$ 4.8 million to about US$ 7.1 billion over the past 22 years. However, the restrictive measures imposed by some preference-giving countries in the form of quantitative restrictions and graduation or withdrawal of benefits for certain products for reasons unrelated to trade had prevented her country from taking full advantage of GSP benefits. Thailand was, therefore, calling on the preference-giving countries which had attached restrictive measures to their schemes to comply fully with the principles of the generalized, non-discriminatory and non-reciprocal character of the GSP. With regard to UNCTAD's technical assistance programme, it not only helped developing countries arrive at a deeper understanding of the GSP schemes and to make more effective use of the GSP and increase their exports, but it also helped promote greater cooperation between developed and developing countries. Her country hoped that UNCTAD would continue this activity. She expressed appreciation for the efforts of the Special Committee on Preferences to liberalize, harmonize and simplify the rules of origin and looked forward to seeing this task completed in the near future. This would imply lower administrative costs to producers and a wider use of GSP benefits.

43. The representative of the **Republic of Korea** said that the GSP scheme might have some negative impact on South-South trade but that such cooperation was covered by other mechanisms, as for example the GSTP in which many developing countries, including his own, were actively participating. The GSP's role in expanding international trade for the economic benefit of the developing countries was none the less clear and indisputable. With regard to

graduation, graduation and differentiation measures had continued to expand. In the face of petitions from domestic firms, GSP access had gradually been withdrawn for products which had become competitive in the developed country's market. In other instances, GSP was used as a means to exert pressure to open markets in developing countries. Recently, certain developed country counterparts had been considering removal of the GSP benefits on certain products granted to his country in retaliation for the increase of his country's tariff rates on certain products, an increase that was certainly legitimate under the current trade rules. He therefore called on the Special Committee to establish multilaterally agreed objective and rational graduation criteria, and suggested that arbitrary graduation measures not be allowed until there was agreement on objective criteria.

44. The representative of **Bangladesh** said that, from the viewpoint of a least developed country, account should be taken of several areas for improvements in the schemes, as the least developed countries had gained limited results in the Uruguay Round. An erosion of GSP preferences owing to the Uruguay Round should be restored and new schemes should be found, particularly for the least developed countries. The percentage criterion should be reduced to 25 per cent for such countries as they were heavily dependent on imports for their exports. Ready-made garments should be included in all GSP schemes, particularly for the least developed countries. There should be no negative list for these countries. The GSP schemes should not be overloaded with unrelated issues concerning the environment and labour standards. Preference-giving countries should explore the possibility of applying the GSP concept to services in the context of the Uruguay Round. In this connection, Bangladesh would encourage the idea of giving preferences to the movement of all kinds of natural persons from least developed countries to work in the developed countries especially.

45. The representative of **Malta** stated that despite the various problems and obstacles encountered by users of the GSP schemes, the GSP still remained a valid tool for encouraging and developing trade between donor and developing countries. Nevertheless, it was well known that the utilization rate of the GSP schemes as a whole was far below its potential. Improvements were necessary, and the present session, in the run-up to the 1995 review, was the ideal forum for sincere discussions and effective conclusions. As regards the issue of harmonization of the rules of origin, adoption of a single criterion applicable under all GSP schemes would be a major step towards simplification. Just as a single rule had been agreed on in the Uruguay Round as regards non-preferential trade, her Government hoped that it would also be possible to reach an agreement on rules of origin for preferential trade. Whether the final decision was for the "maximum imported input allowance criterion" or for the "change in tariff heading rule", utilization of the GSP would be made a lot easier for exporters. Regarding duration of the schemes, exporters using the scheme laboured under a certain amount of apprehension awaiting confirmation of renewal or extension. The UNCTAD secretariat was to be congratulated for the completion of the second version of the computerized Trade Analysis and Information System (TRAINS) now available in CD-ROM form. It was a very "user-friendly" system and an invaluable tool for all parties involved in providing any type of GSP-related information. It was more up to date than many of the individual donor-country GSP publications and tariff schedules, and included varied useful information. It would be desirable to

have all GSP schemes included, and it was hoped that UNCTAD would find the means to develop this system further and to update it regularly so that it would retain its effectiveness and fulfil its potential.

46. The representative of **Finland** observed that its GSP scheme was simple, transparent and predictable without any quotas or ceilings. Two years ago, Finland started giving duty-free entry to nearly all imports from the least developed countries and has made no substantial changes since then nor were there plans to make any reforms while awaiting the outcome of the integration process. However, some minor changes had been made concerning the list of GSP beneficiary countries. Yugoslavia had been deleted while Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia had been added to the list. Croatia and Slovenia were already on the list. Bulgaria, Israel and Romania had been deleted upon conclusion of their free trade agreement with EFTA countries. Eritrea had been added to the list of least developed countries. The preliminary statistics on 1993 GSP imports showed a slightly declining trend on the utilization rate of the GSP. The usefulness of the so-called "green" GSP was questionable. With regard to this proposal, there might be certain difficulties to formulate objective environmental criteria and control of production in this context. As for extending the GSP to services, the new GATT agreement already provided good opportunities to take into account the concerns and special situation of individual developing countries. Thus it would be better to concentrate on making the best use of existing possibilities when implementing the World Trade Organization agreement. Finland supported the efforts to simplify the GSP, especially the rules of origin.

47. The representative of the **United Republic of Tanzania** said that past reviews of the GSP had assessed its achievements as positive, although the GSP had not fully reached its objectives. The Chairman's summary of discussions at the twentieth session of the Special Committee referred to the revitalization of the schemes. Indeed this was an integral aim of the Cartagena Commitment which called for the GSP to be revitalized with fresh innovative approaches taken to its design, review and improvement, especially in the fields of beneficiary status, product coverage, quantitative restrictions, graduation, rules of origin and special provisions for least developed countries. There was concern regarding possible new opportunities arising from the conclusion of the Uruguay Round, in cases where reform of rules of origin risked trade diversion and safeguarding of domestic producers' interests. UNCTAD could initiate an in-depth dialogue leading to a consensus on such rules of origin reform. The proposal to convene a working group for this purpose merited support as did the proposals for the improvement of the GSP made by the spokesman for the Group of 77 and the representative of Bangladesh who had stressed the necessity of special measures for least developed countries to increase their export earnings, promote industrialization and accelerate economic growth.

48. For the special measures to be taken to preserve the relative position of the least developed countries in the face of benefits eroded by tariff reductions (UNCTAD/ITD/8), his delegation endorsed the observations presented in the consultant's paper. The least developed countries should be enabled to benefit fully from GSP schemes by comprehensive product coverage and liberal application of rules of origin. In particular, OECD countries might wish to consider full duty-free access for all goods from these countries. Full

global and regional cumulation should be granted to exports from the least developed countries, and the donor country content rule should be introduced as this could expand exports and attract foreign direct investment and thus stimulate economic growth. For the least developed countries, the advantages from the results of the Uruguay Round had been insignificant. Therefore care should be taken in the reform of the GSP to guard against the least developed countries being once again left out in the cold.

49. The representative of the **United States of America** said that, in an effort to broaden and deepen its GSP scheme, his Government had continued to add both countries and products to its GSP scheme in the past year. The countries added were Albania, Kazakhstan, Kyrgyzstan, Romania, Russian Federation, South Africa and Ukraine. In addition, reviews were being undertaken to determine whether Belarus and Uzbekistan qualified for benefits under the scheme. The list of articles eligible for GSP benefits was expanded as a result of the 1992 annual GSP review. Duty-free imports of GSP-eligible products had continued to increase. Currently, more than 4,400 categories of products in the United States tariff schedule were eligible for duty-free GSP treatment This included approximately 500 agricultural products and over 3,000 manufactured and semi-manufactured items. In 1993, more than US$ 19.5 billion worth of products had been imported free of duty under the GSP scheme from 146 beneficiary countries and territories. Moreover, petitions to add new products to the list of eligible articles were being considered in the 1993 annual GSP review.

50. With regard to the renewal of the GSP scheme, it had been temporarily renewed for 15 months in 1993, and was set to expire on 30 September 1994. Longer term renewal of the GSP scheme would require legislative action by the United States Congress. The administration had just submitted to Congress a proposal for consideration. Notwithstanding the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations, it should be stressed that the United States remained committed to the overall aims of the GSP programme, i.e. economic growth and development through expanded trade with developing countries. The scheme had effectively promoted trade with those nations which were less competitive in world markets, thus facilitating their economic development. There had been rapid growth in the levels of development of those beneficiaries which had been able to most utilize the various GSP schemes. However, the GSP was not intended to be a permanent scheme, nor was it a substitute for the reduction of trade barriers through multilateral trade negotiations. Thus, the principle of graduation, which was as old as GSP itself, was a necessary corollary to the granting of unilateral trade preferences.

51. The proposal now before the Congress retained most of the features of the current programme, while seeking to simplify the scheme and to improve transparency. Criteria for both country and product graduation would be simplified. Country graduation limits based on per capita GNP had been lowered aligning them with the World Bank definition of upper middle-income countries, i.e. countries designated high-income countries by the World Bank would be graduated from the scheme after a two-year phase-out period. The competitive need limits had been lowered somewhat for product graduation, but discretion to continue to grant GSP benefits to products that exceeded the limits was retained as long as the GSP beneficiary met conditions relating to market access and intellectual property protection. Lastly, the United States

intended to explore the possibility of extending increased benefits for least-developed beneficiary countries. In closing he said that his Government remained committed to the concept of GSP as a means of furthering economic development. He then reiterated that GSP was not intended to be a permanent solution, especially in light of the achievements of the Uruguay Round.

52. The representative of **Switzerland** noted that the rules of origin had become not only an administrative burden but an insurmountable obstacle to developing countries. Therefore, she supported the proposal to establish an ad hoc expert group charged with harmonizing, simplifying and liberalizing the rules of origin. As its terms of reference, this group should pursue the adoption of a single origin criterion more favourable for the least developed countries. In the second stage, rules of origin should be relaxed in order to respond to the industrial infrastructure of developing countries. As far as technical assistance was concerned, the situation was critical: UNCTAD staff assigned to this area had diminished from year to year and currently consisted of only two at the professional level. It was hard to understand how this had been allowed to happen since the GSP was one of the major successes of UNCTAD and preparations for the 1995 policy review had started. The few remaining staff would have to prepare for the review in addition to carrying out technical assistance activities. The necessary staff should be provided on a regular budget basis since it was not acceptable that staff financed through projects should undertake duties devolving on the organization itself. In addition, the 13 per cent overhead on GSP technical assistance projects should be devoted to this programme. So far, the programme had generated hundreds of thousands if not millions of dollars which should be used to support the programme itself. Moreover an evaluation of technical cooperation should be made. Surely the current decline of resources could be offset by a new method of financing. New approaches to technical cooperation should be taken. Among other ideas, seminars should be made profitable, as had been done elsewhere by other United Nations institutions with success. The training of trainers could also be another way to ensure regular training but these trainers would have to be financially motivated. The Government of Switzerland was ready to consider financing an evaluation of technical cooperation. The mandate of the proposed intergovernmental group of experts on rules of origin could deal with four questions:

(a) How could the least developed countries fulfil easier the rules of origin requirements? The Swiss scheme, for example, provided for flexibility in these rules if warranted by the existing level of industrial development or establishment of new industry. Exemptions to GSP rules of origin were granted on the basis of clear criteria. Owing to the widely varying possibilities for industrialization in the least developed countries, consideration could be given to granting exemptions on a case-by-case basis.

(b) To what extent was it rational to maintain two major systems of rules of origin, one based on minimum local content (United States of America, Australia, New Zealand), the other based on changes in tariff heading and/or maximum imported input (Canada, European Union, European Free Trade Association (EFTA), Japan)? This was a question of harmonization. If harmonization between the two groups proved impossible, variants, with harmonization within each group, could be envisaged. This would already constitute progress.

(c) To what extent were the rules applicable to specific listed products justified by the industrial bases of developing countries and by the risks of tariff evasion affecting imports of preference-giving countries? This was a question of simplification. Could the lowering of tariffs in the Uruguay Round and the erosion of preferential margins not be offset by rules of origin adapted to the lowest tariff levels?

(d) What effects would different systems of cumulation have on the capacity of developing countries to fulfil the rules of origin requirements? Donor country cumulation could play an important role in stimulating investments, a concept omnipresent in the GSP. The European Union had indicated an intention to introduce donor-country cumulation. If this occurred, EFTA countries could rapidly follow suit and thus only one major donor country would be without cumulation.

53. The representative of **Ethiopia** said that the achievements of the GSP were positive if not outstanding. While exports of preference-receiving countries had grown significantly in the past 15 years, there had been only a marginal increase in the share of total dutiable exports receiving GSP benefits. As a least developed country, Ethiopia was concerned about the effects of the Uruguay Round on preferential access. Although his country had enjoyed GSP benefits in the pre-Uruguay Round period, such benefits were being eroded by reducing tariff rates, wider product coverage and the absence of quantitative limitations on exports from countries which were not among the least developed.

54. There was also concern over the structural inability of the least developed countries to take full advantage of the GSP, owing to their low export supply capability and lack of awareness among potential GSP users. Exclusion of certain products from GSP, limited special provisions regarding rules of origin and the complexity of schemes added to the difficulties. In line with the Cartagena Commitment, there was a need to revitalize the GSP through innovative approaches.

55. Turning to technical assistance, he listed the problem areas for his country, including lack of information and absence of promoting the benefits to GSP users. It would be highly desirable if seminars and workshops could be organized for all actors in the field of international trade but this important task of technical assistance required help from the international community, in general, and from UNCTAD, in particular. This would greatly assist Ethiopia in its endeavour to implement structural adjustment consisting of economic liberalization measures, accompanied by market deregulation and privatization, with a view to enhancing production and stimulating exports.

56. The spokesman for the **Asian Group** (Sri Lanka), referring to the multilaterally agreed principles of the GSP, said that any action to link the granting of GSP benefits to non-economic factors such as environment and labour standards would adversely affect the stability and the utility of the schemes. Concerning the recent extension of the GSP benefits to the countries of Central and Eastern Europe, his Group had reservations regarding the extension of the benefits to countries not categorized as developing countries. This highlighted the need for a study evaluating the implications of such a step for the developing countries. For example, the European Union had extended to the former countries more favourable conditions on market

access than under the GSP. The Asian Group considered that the favourable treatment accorded under the Europe Agreements would allow these countries to establish lasting gains in the European market at the expense of producers in Asian developing countries. The extension of benefits under the GSP or other preferential schemes should not put developing countries at a disadvantage. His Group also questioned the granting of special access to the European Union (EU) markets for certain products from some countries of Central America as this access was not given to Asian countries which had lower income levels. As a result, exporters in the Asian region had been affected adversely and investment in the sectors concerned had declined. In the circumstances, special access should be extended to all beneficiaries of the EU scheme without further delay.

57. Regarding the uncertainty surrounding the duration of most of the GSP schemes, this unfortunately limited chances of industrialization through increased local and foreign investment. His Group, therefore, proposed that all schemes be extended to cover long-term periods, preferably 10 years or longer. The predictability of schemes should also be further strengthened, along with multilaterally agreed criteria of graduation. Any arbitrary application of graduation should be disallowed until objective criteria had been agreed upon. The need to expand substantially product coverage to include the products of current or potential export interest to developing countries had been recognized in the Cartagena Commitment as a means of improving the system. Accordingly, his Group was calling upon all preference-giving countries to expand the product coverage to the greatest extent possible. Comprehensive coverage should include semi-processed and processed agricultural products, leather goods, footwear, textiles and clothing, steel products and certain categories of electronics.

58. As for possible erosion of preferential margins that would result from the reduction of MFN rates following the conclusion of the Uruguay Round, his Group appealed to all preference-giving countries to take appropriate steps to offset such erosions as early as possible in line with the Cartagena Commitment. Tariff reductions in most of the preference-giving countries necessitated a comprehensive review of the GSP rules of origin as the present low levels of duties no longer justified such stringent criteria as before. The Asian Group would like to see such a review form part of the 1995 policy review. Although recent proposals aimed at using the GSP for promoting environmentally friendly production in developing countries were interesting, the "greening of GSP" should not become an attempt to restrict market access by beneficiary countries under the prevailing schemes. With the growing importance of the services trade, the Asian Group considered the proposal to develop preferences similar to GSP for services to be timely and appropriate. It also welcomed the proposal for parallel measures for foreign direct investment which would promote such investment in developing countries.

59. UNCTAD's Technical Cooperation Programme on GSP and Other Trade Laws had been constantly hampered by financial constraints but recent developments in the international trading system, such as conclusion of the Uruguay Round and the establishment of NAFTA, and their implications for the GSP schemes and other trade laws and regulations, made some countries in Asian Group's region more dependent than ever on this programme. However, the growing demand from

other regions, including Central and Eastern Europe, limited access to the programme. His Group therefore appealed to the international community to increase their financial contributions to this programme.

60. The representative of **Sweden** said that his country's scheme, introduced in 1972, was simple, transparent and predictable. The beneficiaries enjoyed total exemption from import duties for goods eligible for GSP treatment. No tariff quotas or ceilings were being applied for eligible goods. Furthermore, the least developed countries as designated by the United Nations enjoyed duty-free treatment for all dutiable products. All they had to do to benefit from the scheme was to fulfil the notification procedure set by the Swedish Government, and to make sure that the rules of origin were being complied with. There were over 100 beneficiaries under the scheme, of which 25 were least developed countries.

61. The procedures were quite simple. There was no need to deposit specimens of signatures of individual officers empowered to sign a certificate of origin. The designation of the competent authority and a specimen impression of the stamps used by the authority were sufficient. With regard to the latest changes made to the scheme, as from 1 October 1993, the Republic of Benin was covered as a least developed country. Since 1 June 1994 the Republic of Albania benefited from the scheme. Sweden was now taking the necessary steps to grant beneficiary status to South Africa. Product coverage had also been extended. As from 1 April 1994, certain fabrics classified under HS headings 52.08 and 55.13 had been added to the list.

62. Regarding the GSP utilization rate, he said that imports from beneficiary countries entitled to GSP treatment had increased in 1993, especially of industrial goods. The percentage of imports that actually took advantage of the preferences remained unchanged, the average figure being 64 per cent, which was relatively quite high in international comparisons. Finally, he informed the Committee about his country's aim to become a member of the European Union as from 1 January 1995. This meant that the current scheme would cease to be effective as from the date of the full membership and that the Community's scheme would apply thereafter.

63. The representative of **Côte d'Ivoire** wished to thank the secretariat for organizing a regional seminar in Lomé and a national one in Abidjan in 1991. These seminars had had a positive effect in so far as they had allowed officials charged with the day-to-day administration of GSP to become better acquainted with the system. They likewise helped in disseminating information on the GSP schemes among entrepreneurs. These activities had resulted in an increase in GSP utilization. The GSP was without doubt one of the best instruments for multilateral cooperation aimed at increasing North-South trade. His Government attached particular importance to the GSP since the devaluation of the CFA franc. This devaluation would have, as a consequence, greater competitiveness for exports from Côte d'Ivoire. The recent developments, following the Uruguay Round conclusions, offered real prospects despite the erosion of the preferential margin. He then requested the UNCTAD secretariat to undertake a study on the impact of the Uruguay Round conclusions in relation to the GSP.

64. The representative of **Indonesia** declared support for the statements by the spokesmen for the Group of 77 and the Asian Group. The GSP, after more

than two decades in operation, had proved to be one of the most durable and effective instruments of trade and development cooperation between developed and developing countries. The advantage which developing countries had been enjoying from better market access in developed countries provided them with the means to continue their development programmes and had enabled them to increase their purchases from the developed countries. GSP was highly appreciated by many developing countries for the possibilities it offered for expansion and diversification of exports to developed countries. However, the system had not yet achieved its full potential. According to the secretariat report, only slightly over 25 per cent of imports by the preference-giving countries actually received preferential treatment in 1992. This concerned imports subject to the MFN duties and thus within the purview of GSP. This showed that the system should be revitalized and that fresh and innovative approaches to its design, review and improvement were necessary. This was in line with the objectives of the Cartagena Commitment, which emphasized the importance of substantial expansion of product coverage to include hitherto excluded products of current and potential export interest for developing countries. Simplifying and harmonizing the rules of origin was another concern. In this context, the meeting of the Special Committee provided an opportunity to take stock of its achievements and to see how further gains could be made as well as to begin preparations for the 1995 policy review on the GSP. Recently, the world economy was undergoing drastic changes with a major influence on the GSP. With the successful conclusion of the Uruguay Round, GSP tariff preference margins in favour of developing countries would be eroded. The rapid intensification and expansion of large economic spaces embracing the major trading nations of the world and the rapid progress in globalization of production, investment and trade would have implications for the effectiveness of the GSP. Therefore, in order to maintain the usefulness and effectiveness of the GSP, it was imperative that the preference-giving countries make favourable adjustments to their schemes and improved GSP coverage following the tarification of goods. In this connection, he also requested the secretariat to study further the impact of the Uruguay Round on the implementation of GSP and to identify follow-up actions required to strengthen the effectiveness of the GSP.

65. With regard to the technical cooperation activities on the GSP, his country believed that these activities had contributed significantly to the increasing use being made of the GSP by beneficiary countries. The secretariat report had pointed to the high demand for technical assistance on the GSP; there were consequently many requests for training and advisory activities from beneficiary countries seeking to enhance the utilization rate of the GSP. In view of the demand, it was a source of profound concern that the funds needed for such activities in 1993 had declined. He, therefore, appealed to all donor countries and UNDP to give attention to this situation and to provide further assistance either in the form of trust funds or in-kind contributions so as to augment the resources needed to meet the demands from developing countries for technical assistance.

66. Finally, he noted that it was gratifying to hear that the Canadian and Japanese schemes had been given a 10-year extension. These extensions were surely demonstrations of good will towards the developing countries. It was hoped that similar action would be taken by other preference-giving countries in the near future.

67. The representative of **Algeria** said that the GSP now held particular importance in the light of the recent liberalization of world trade and the new trading rules agreed on in Marrakesh within the framework of the Uruguay Round. The principles of the GSP remained fully valid for the African countries in so far as they both aimed at integrating them into world trade and diversifying their exports and economies. Most countries attached great importance to preferential trade as an instrument to increase trade. She welcomed the decision to hold the 1995 policy review. If this review were inspired by the "Spirit of Cartagena", it would guide both developed and developing countries to agree on the expansion of product coverage and the harmonization of rules of origin. The Special Committee should consider the present session as a preparatory meeting for a successful 1995 policy review. On the proposal to consider a "green GSP", in view of the inherent financial and technical implications, attention should be given to the fact that adequate prior technical assistance would need to be provided.

68. The representative of the **European Community** said that this particular session was especially important, as it would launch the preparations for the GSP policy review. It was also the first session since the conclusion of the Uruguay Round, which had ushered in a new era in the multilateral trading system and marked the start of genuine integration of the developing countries into that system. In the face of this challenge, the Committee could take only one approach to overcoming any obstacles, and that was dialogue. The results of the work of the Ad Hoc Expert Group enlisted to help the Committee in this task were welcomed (TD/B/SCP/9).

69. The most striking feature of the Community's own GSP over the past few years was the marked rise in the utilization rate, from ECU 8 billion in 1981 to more than ECU 27 billion in 1992. This reflected not just a better take-up but also a change in the make-up of certain beneficiary countries' exports, particularly Asian countries which had been exporting more manufactured products. On the whole the product coverage and utilization rate of the Community scheme had been relatively high in 1992 (see also TD/B/SCP/6), with 78.5 per cent of dutiable imports from beneficiary countries covered by the scheme and 35.6 per cent of those admitted under the preferential arrangements. The product differentiation policy adopted in 1981 had had an effect. Some countries had seen a marked growth in their GSP trade with the Community in recent years, at the expense of the most competitive countries, and had in turn become extremely competitive in certain sectors. Asia had been the major GSP beneficiary, accounting for almost 70 per cent of the preferential advantage in 1992. The large proportion of GSP preferences taken up by Asia reflected the region's swift industrialization and the improvement in the terms of trade for manufactured products.

70. The position of the least developed countries (as classified within the United Nations) was still weak: in 1992 they had accounted for 1.2 per cent of imports from beneficiaries and 1.7 per cent of GSP benefits. Even more worrying was the fact that GSP take-up by the least developed countries was, at 51.6 per cent, only slightly higher than the figure for GSP beneficiaries as a whole (45.5 per cent), despite their freedom from quotas or ceilings.

71. The Uruguay Round outcome had reduced both the need and the scope for significant preferential treatment in several product categories. Overall, the weighted average Community tariff on industrial products would be cut

gradually from 6.8 per cent to 4.1 per cent, a reduction of 37 per cent. In some sectors - building equipment, medical and pharmaceutical equipment, furniture, steel, agricultural equipment, paper, toys, beer and certain spirits - duties would disappear altogether; in others, they would either be aligned with other countries' tariffs or cut. With the reduction of the preferential margin owing to the conclusion of the Uruguay Round, it would be necessary to target what remained of the preferential margins on those countries most in need of them. The Community's aim was to enable the GSP to play its proper role as a tool to aid development, in particular for the benefit of the poorest developing countries. This was also reflected in Article 130u of the Treaty on European Union which placed "sustainable economic and social development" and "the smooth and gradual integration of the developing countries into the world economy" among the prime policy objectives.

72. The subject of graduation had been approached with a fresh and reassuring candour in TD/B/SCP/9 although ambiguities remained. Graduation was not an instrument to protect the interests of the donor countries, but first and foremost a mechanism for making sure that the advantages of the GSP were redistributed to those who needed them. The possible withdrawal of certain GSP benefits from some countries, if it complied with honest and objective criteria, would not have the effect of restricting trade but would simply reduce a tariff advantage which had become meaningless and let others derive increased benefits from it. This meant that any reflex to defend "acquired rights" should not be part of the discussions. Beneficiary countries should accept that the GSP, like any other cooperation instrument, had a transitional function: aid was granted commensurate with need and hence should be phased out when that need no longer existed. The difficulty, of course, lay in deciding on the latter. The only recourse was to measure needs against GSP's basic objectives: higher income and industrialization. The GSP had attained its objectives and served its purpose once a beneficiary country had entirely or partially reached a relatively high level of income and industrialization.

73. The ad hoc expert group had recommended (see TD/B/SCP/9) that if graduation did occur, it should be by product or group of products based on a combination of criteria such as industrial capacity, level of development and diversification of exports. The question was how the assessment of the level of development should be done: by measuring the increase in income and level of industrialization alone or by using a broader notion of development policy, taking into account, in particular, social progress and protection of the environment. The ad hoc expert group addressed the issue in some detail and also discussed a "green" GSP. Sustainable development could initially imply additional costs for the developing countries with consequences for their natural comparative advantages, thus touching the very motor which enabled them to achieve a certain level of industrialization. The question could therefore be asked whether help might be warranted in facing these costs. The Community wished to act in close concert with the developing countries as it was the quality of their development which was at stake and not the interests of the donor countries. However, donor countries should not seek to use new development themes as a means of resolving their own competitiveness problems. It was therefore very useful to discuss the matter within the Committee.

74. The low GSP up-take of the least developed countries was a cause for concern. An intelligent graduation policy should encourage economic operators

to turn to those countries with the help of adequate flanking measures in terms of trade promotion and investment. Extra effort had to be made, however, on the rules of origin. It was essential that developing countries be accorded adequate derogations. The Community had noted with interest the suggestions put forward by the group of experts regarding a consultation procedure for these rules. It would endeavour to put into effect the "donor country" element in the rules of origin, in order to facilitate industrial cooperation with all the beneficiary countries.

75. Technical assistance should be bolstered, particularly for the least developed countries. This would mean stepping up the information seminars organized in the beneficiary countries, widening their scope to embrace information on all the conditions for access to the Community market, increasing Community cooperation in UNCTAD programmes in this field and providing special assistance to help the developing countries implement the results of the Uruguay Round.

76. The representative of **China**, addressing the subject of harmonization and improvement of the rules of origin, said that increased complementarity of trade between countries and the widespread phenomenon of specialization and regionalization of the manufacturing industry usually made it impossible to complete the manufacturing process in one single country. This was particularly so for high-tech products. The global cumulation rule adopted by some preference-giving countries undoubtedly contributed to fuller utilization of the GSP and was conducive to economic and trade cooperation between the developing and developed countries. Gradually shifting towards a socialist market economy, China had improved the environment for investment, in particular, foreign direct investment. The manufacturing of many products excluded the possibility of one origin; most raw materials came from developing countries and regions. China could not benefit from "regional rules of origin" as it was not a member of any regional economic group. Therefore, his country appealed to all the relevant donor countries to adopt the global cumulation rule in their rules of origin.

77. He also called upon preference-giving countries to adopt the donor-country content rule. Owing to increasing international trade, cheap labour and lower production costs, many products were manufactured in developing countries using an increasing portion of imported inputs from developed countries. These products were then exported to developed country markets. However, the rules of origin requirements for eligibility under various schemes discouraged such a manufacturing pattern. As applied to transistors, for example, the requirements for high technology inputs precluded production in developing countries which had not yet acquired the necessary capacity. For another example, his country was exporting toys and electronic products using many raw materials imported from donor countries. The universal adoption of the donor country content rule by all preference-giving countries would contribute to the development of the economy and balanced trade for both sides.

78. Regarding rules of origin on textiles and clothing, he referred to the recent welcome decision by Japan to revoke the rule that imported raw materials for non-knitted clothing must be in the form of yarn, thus allowing clothing made of imported fabrics to enjoy GSP benefits. Other donor

countries might take steps to change their requirements; more preference-giving countries should be encouraged to adopt similar positive measures.

79. The representative of **Poland** stated that his country simultaneously benefited from and granted GSP treatment. Hence there was clear recognition of the great importance of this measure for the development and restructuring of the economy. Under the scheme of Poland, two groupings of countries were eligible for preferential treatment: least developed countries so designated by the United Nations and non-European developing countries with a GDP per capita not exceeding Poland's. The list of the latter countries was compiled and regularly updated on the basis of the most recent edition of the Handbook of International Trade and Development Statistics. It was therefore important that the Handbook accurately reflect the level of economic development of all developing countries. Regarding amendments made to the scheme, in July 1993 there had been a shift from 8-digit to 9-digit Polish Combined Nomenclature, which resulted in doubling the number of tariff items. Since that date the previously applied general rule, whereby the preferential rates from developing countries amounted to 70 per cent of the MFN rates, had been abolished. However, most tariff items covered by the scheme had been maintained at that level. The Government of Poland was in a position to increase the preferential margins whenever it was justified from the point of view of the domestic industry. The least developed countries were still granted a zero rate for all items covered by the scheme. Moreover, unprocessed tropical products benefited from duty-free preferential access for both the least developed countries and the developing countries covered by the scheme. The full scheme was set out in the annex to the Governmental Decree of 21 December 1993, published in the Journal of Laws, No. 128, item 591. It was published together with the Polish Customs Tariffs in two volumes; a copy deposited with the UNCTAD secretariat was available for reference. Statistics had shown that the value of imports from developing countries to Poland under the GSP treatment amounted to US$ 419.6 million in 1992 and to US$ 457.6 million in 1993. The respective imports from the least developed countries were US$ 45.7 million and US$ 34.3 million. Imports eligible under the scheme represented 72.8 per cent in 1992 and 61.4 per cent in 1993 of the global imports from the beneficiaries of the Polish scheme. Implementation of the Uruguay Round tariff commitments would undoubtedly erode the margin of preferences for the developing countries. Hence, his Government felt that certain ideas mentioned in TD/B/SCP/6, such as a "green" GSP and a "GSP for services" merited further in-depth consideration.

## Chapter II

## PROCEEDINGS AT THE CLOSING PLENARY

Action by the Committee

80. At the Special Committee's 186th (closing) plenary meeting on 20 May 1994, the **Chairman** introduced a Chairman's summary along with a draft text on preparations for the 1995 policy review on the GSP (TD/B/SCP/L.4).

81. The Special Committee adopted the draft text on preparations for the 1995 policy review on the GSP (for the text, see annex I) and decided to annex the Chairman's summary to its report (see annex III).

82. In connection with the Special Committee's recommendation to establish an intergovernmental group of experts on rules of origin to make proposals for the policy review (annex I), the **secretariat** announced that the proposed intergovernmental group of experts could be accommodated within existing provisions for meetings of experts and study groups in the 1994-1995 calendar of meetings and pointed out that the travel and per diem of participating experts would be borne by their respective Governments and not by UNCTAD.

83. At the same meeting, the **spokesman for the Group of 77** (Chile) introduced a declaration of the Group of 77 regarding the 1995 policy review on the GSP and proposed that it be incorporated in full in the report of the twenty-first session.

84. The Special Committee decided to attach the Declaration of the Group of 77 in full to the report of its session (see annex IV).

85. At the same (closing) plenary meeting on 20 May 1994, the **Chairman** introduced a draft text on technical assistance in connection with the Generalized System of Preferences (TD/B/SCP/L.5).

86. The **secretariat** drew attention to the fact that it was not customary to have in decisions of the Committee an operative paragraph appealing to the Secretary-General of UNCTAD regarding the staffing of the individual units of the secretariat. The determination of the overall staff resources of UNCTAD was the privilege of the General Assembly of the United Nations when it considered the programme budget prepared by the Secretary-General of the United Nations. Assignment of staff within the UNCTAD secretariat was within the competence of the Secretary-General of UNCTAD. Hence paragraph 4 might therefore be deleted from the draft decision of the Committee and its contents appropriately reflected in the report of the session.

87. The **Chairman** said that the Special Committee would take note of the secretariat's remarks which should be duly reflected in the report of the session.

88. The Special Committee adopted the draft text on technical assistance in connection with the Generalized System of Preferences (TD/B/SCP/L.5) as amended and decided to annex it to the report of the session (annex V).

## Chapter III

## ORGANIZATIONAL MATTERS

### A. Opening of the session

89. The twenty-first session of the Special Committee on Preferences was opened by Mr. Carlos Fortin, Officer-in-charge of UNCTAD.

### B. Election of officers

(Agenda item 1)

90. At its 181st plenary meeting on 16 May 1994, the Special Committee elected its bureau as follows:

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| Chairman: | Mr. Elikunda Mtango | (United Republic of Tanzania) |
| Vice-Chairmen: | Mr. D. Chalepidis | (Greece) |
| | Mr. Y. Afanassiev | (Russian Federation) |
| | Miss T. Feroukhi | (Algeria) |
| | Mr. G. Senadhira | (Sri Lanka) |
| | Mr. M. Bicalho Cozendey | (Brazil) |
| Rapporteur: | Mr. Z. Baltacioglu | (Turkey) |

### C. Adoption of the agenda and organization of work

(Agenda item 2)

91. Also at its 181st plenary meeting, the Special Committee adopted its provisional agenda (TD/B/SCP/5) as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences, including preparations for the 1995 policy review on the GSP

4. Consultations on harmonization and improvement of the rules of origin

5. Technical assistance in connection with the generalized system of preferences

6. Provisional agenda for the twenty-second session of the Special Committee on Preferences

7. Other business

8. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board.

## D. Provisional agenda for the twenty-second session of the Special Committee on Preferences

(Agenda item 6)

92. At its closing plenary meeting, on 20 May 1994, the Special Committee approved the provisional agenda for its twenty-second session (TD/B/SCP/L.6). For the text of the provisional agenda, see annex II.

## E. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

(Agenda item 8)

93. At its closing plenary meeting, on 20 May 1994, the Special Committee adopted its draft report (TD/B/SCP/L.3 and Add.1 and Add.2) and authorized the Rapporteur to complete the report as appropriate to reflect the proceedings of the closing plenary.

## Annex I

### PREPARATIONS FOR THE 1995 POLICY REVIEW ON THE GSP a/

1. The Special Committee on Preferences recommends to the Trade and Development Board that, as part of the preparation for the 1995 policy review, an Intergovernmental Group of Experts on Rules of Origin be established with the following terms of reference: To make proposals to the Special Committee, in view of the policy review on the GSP in 1995, on the simplification, harmonization and improvement of the rules of origin.

2. In order to facilitate the discussions of the policy review meeting, the Committee requested the UNCTAD secretariat to prepare complementary studies and reviews in the light of the Chairman's summary.

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a/ Adopted by the Special Committee at its 186th (closing) plenary meeting on 20 May 1994 (see paras. 80 to 82 above).

## Annex II

**PROVISIONAL AGENDA FOR THE TWENTY-SECOND SESSION OF THE SPECIAL COMMITTEE ON PREFERENCES** a/

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences, rules of origin and technical assistance

4. Policy review: towards revitalization of the GSP

5. Provisional agenda for the twenty-third session of the Special Committee on Preferences

6. Other business

7. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

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a/ Approved by the Special Committee at its 186th (closing) plenary meeting on 20 May 1994 (see para. 92 above).

## Annex III

## CHAIRMAN'S SUMMARY a/

1. The Special Committee on Preferences held discussions on issues relating to the implementation, maintenance, improvement and utilization of the generalized system of preferences and issues pertaining to the rules of origin and technical assistance as well as the preparation for the 1995 policy review on the GSP. Parallel to these discussions, 84 bilateral consultations were held with respect to individual schemes.

2. The Committee also held active informal discussions based on the report of the ad hoc Expert Group meeting (TD/B/SCP/9), which identified key issues for the 1995 GSP policy review.

3. Discussions of the Committee, carried out on the basis of high-quality documentation prepared by the secretariat, were comprehensive in coverage and rich in content. Delegations made a number of innovative and constructive proposals to give new impetus to the GSP. There was a general consensus that the 1995 policy review should aim at revitalizing the GSP and, with this objective in mind, that all aspects related to the GSP should be discussed bearing in mind all ideas expressed by delegations.

4. The Committee agreed that the objectives of the GSP remained fully valid. One delegation put forward as a possible option for the future of the GSP a reinterpretation of its principles by proposing that the GSP should become multilateral and be consolidated within the GATT.

5. Developing countries expressed concern about the erosion of the preferential margins following the Uruguay Round agreements. Some developing country delegations requested the secretariat to produce an analytical study to show the extent and impact of the erosion on the GSP schemes. In this context, one delegation proposed that in areas or sectors where preference-giving countries had undertaken to reduce their tariffs to zero, consideration should be given to reducing the GSP tariffs to zero. In other sectors where the tariff reduction will take place in stages, a commensurate reduction in the GSP rates should occur. One delegation pointed out that the Uruguay Round would have a positive impact for all countries, developed and developing alike.

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a/ Annexed to the report of the Special Committee on Preferences in accordance with a decision taken by the Special Committee at its 186th (closing) plenary meeting on 20 May 1994 (see paras. 80 and 81 above).

6. One preference-giving country wished to see the discussions aimed at a common objective, i.e. development. This delegation hoped to have an open and constructive dialogue on all issues related to the GSP in view of the 1995 policy review. Developing countries were of the view that the Uruguay Round agreement, including, inter alia, tariffication of the agricultural and textile sectors, provided ample scope for improving the GSP schemes in terms of expansion of product coverage. These benefits, if implemented, should be made available to all developing countries.

7. There was a general consensus on a need to take measures in regard to comprehensive product coverage, duty- and quota-free treatment and relaxed origin requirements in favour of least developed countries, taking into account the special circumstances they encounter.

8. The issue of graduation was also discussed. Developing countries said that, in principle, they did not accept graduation as it was contrary to the basic GSP principles. Some developing countries considered that graduation could only be considered in the context of the principles of the GSP. Some others felt that, if graduation were considered, the criteria must be clear, transparent and multilaterally agreed upon. Such graduation should be reversible and have a phase-out period of at least three to four years. Some developing countries expressed their preference for a country graduation approach but maintained that it should not be based solely on GNP per capita. Some developing country delegations expressed their preference for country/product graduation. One preference-giving country said that it was time to consider the subject of graduation openly. In its view, graduation was merely a reorientation of GSP benefits since the GSP was by nature a transitional instrument. In this context, this delegation asked whether the level of development should be measured only by economic growth and industrialization or whether it should embrace other development indicators such as social progress and environment. Developing countries were of the view that it was not easy to measure when a country had reached such development objectives.

9. There were discussions on enlarging the scope of the GSP to embrace trade in services and investment. Some developing countries requested the secretariat to undertake a study on this issue for the 1995 policy review. Some developed countries were of the opinion that consideration of the subject was premature and suggested its postponement. One developed country brought to the attention of the Committee the findings of a study on a "green GSP". In this connection, a number of developing countries expressed reservations. They feared that a "green GSP" could be used as a disguised tool to impose new conditionalities on GSP benefits.

10. In connection with a decision of the Committee to establish a Working Group on Rules of Origin as a part of the preparation for the 1995 policy review, a group of countries expressed the view that in doing so the results of the Uruguay Round negotiations and the trend towards regional integration among developing countries should be taken into account. One delegation wished to see a technical group meet prior to a meeting of high-level officials. Another delegation preferred the reverse order. Some other delegations were of the view that a working group on rules of origin should meet only once.

11. A number of delegations felt that the 1995 policy review session of the Special Committee on Preferences should be of two weeks' duration, in order to allow adequate time to discuss all the issues. The session should conclude with a two-day high-level meeting at the policy-making level. However, some delegations expressed reservations concerning both the duration and the level.

12. One preference-giving country recommended that new ways and means should be explored to carry out technical assistance activities in order to ensure the training of trainers and additional ways to secure financing. The country in question was ready to consider the financing of a prospective evaluation of technical cooperation.

## Annex IV

## Declaration of the Group of 77 regarding the 1995 policy review on the GSP a/

The Group of 77 recalls the principles and objectives of resolution 21 (II) of the second United Nations Conference on Trade and Development and, therefore, reaffirms that the Generalized System of Preferences (GSP) is an instrument of international cooperation to promote trade and industrialization of developing countries.

The Group reiterates the principles that the Generalized System of Preferences should be general, non-reciprocal and non-discriminatory. It also reiterates the objectives that the GSP should:

(a) Increase the export earnings of the developing countries;

(b) Promote their industrialization;

(c) Accelerate their rate of economic growth.

The Group also recalls that resolution 21 (II) of the Conference was adopted unanimously and that therefore it is an international commitment mutually accepted by all members of the international community.

In view of the above, the Group of 77 is of the opinion that, in order to improve the effectiveness of the GSP, the 1995 policy review should agree on the following:

(a) Product coverage: all products should be included in the new generalized system of preferences, in particular those of special interest to developing countries in chapters 1 to 24 of the Harmonized System and in chapters 25 to 97 of the Harmonized System;

(b) Depth of tariff cuts: preference-giving countries should implement immediately in their schemes those tariffs that were reduced to zero during the Uruguay Round; those tariff rates that were partially reduced during the Uruguay Round should be included in the new GSP to a zero rate or at least to 50 per cent of the MFN rate;

(c) Preference-giving countries should eliminate quotas and ceilings altogether or substantially enlarge them.

(d) Since the GSP was unanimously agreed upon on a general, non-discriminatory and non-reciprocal basis, graduation should be eliminated from all preference schemes;

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a/ Annexed to the report of the Special Committee on Preferences in accordance with a decision taken by the Special Committee at its 186th (closing) plenary meeting on 20 May 1994 (see paras. 83 and 84 above).

(e) Preference-giving countries should review the rules of origin of their respective schemes in order to liberalize, harmonize and improve them; special rules for the least developed countries should also be included;

(f) Special compensatory and differential measures should be taken in favour of the least developed countries so that they can use fully the GSP in order to overcome the erosion they have suffered as well as the difficulties of utilizing the GSP owing to their economic backwardness; those measures should include preferential investment treatment or any other economic devices that could increase their industrialization;

(g) The GSP should be revitalized, introducing new elements such as preferential treatment for trade in services and regarding foreign direct investment;

(h) Preference-giving countries should provide to the UNCTAD secretariat increased resources so that it could fulfil its obligations of providing technical cooperation on GSP, other related laws, including the examination and monitoring of the results of the Uruguay Round that might adversely affect the benefits of the GSP.

The Group of 77 calls upon preference-giving countries to consider the above positions of the Group in their preparation for the 1995 policy review.

**Annex V**

**TECHNICAL ASSISTANCE IN CONNECTION WITH THE GENERALIZED SYSTEM OF PREFERENCES a/**

1. The Committee expressed its appreciation for the activities carried out under UNCTAD's Technical Cooperation Programme on the GSP and Other Trade Laws and welcomed the contributions made by member States.

2. It was agreed that the Programme should put more emphasis on trade laws and regulations determining market access conditions in preference-giving countries, including changes affecting the GSP deriving from the implementation of the Uruguay Round agreements.

3. Interested member States and the United Nations Development Programme were invited to continue, and if possible, to increase their contributions to UNCTAD's Technical Cooperation Programme on the GSP and Other Trade Laws.

4. Member States expressed their concern about the lack of human resources required to meet the growing tasks and appealed to the UNCTAD secretariat to allocate the necessary human resources to the GSP section.

5. It was agreed that the GSP Programme put more emphasis on follow-up action to regional seminars, workshops and advisory missions.

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a/ Adopted, as amended, by the Special Committee on preferences at its 186th (closing) plenary meeting on 20 May 1994 (see paras. 85 to 88 above).

## Annex VI

### ATTENDANCE*

1. The following States members of UNCTAD were represented at the session:

Algeria
Argentina
Australia
Austria
Bahrain
Bangladesh
Belgium
Bhutan
Bolivia
Brazil
Bulgaria
Canada
Central African Republic
China
Colombia
Cuba
Czech Republic
Denmark
Ecuador
Egypt
El Salvador
Ethiopia
Finland
France
Gabon
Germany
Greece
Honduras
Hungary
India
Indonesia
Iraq
Ireland
Italy
Jamaica
Japan
Madagascar
Malaysia
Malta
Mexico
Morocco
Nepal
Netherlands
Nicaragua
Nigeria
Norway
Pakistan
Paraguay
Peru
Philippines
Poland
Portugal
Republic of Korea
Romania
Russian Federation
Saudi Arabia
Senegal
Singapore
Slovakia
Spain
Sri Lanka
Sweden
Switzerland
Thailand
Trinidad and Tobago
Tunisia
Turkey
United Arab Emirates
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Uruguay
Venezuela
Zambia
Zimbabwe

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* For the list of participants, see TD/B/SCP/INF.2.

2. The following specialized and related agencies were represented at the session:

International Monetary Fund

The General Agreement on Tariffs and Trade was also represented.

3. The following intergovernmental organizations were represented at the session:

European Community

Organization of African Unity

4. The following non-governmental organization was represented at the session:

General Category

World Federation of United Nations Associations

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